

THE EFFECTS OF BARTER TRADE SUSPENSION IN SABAH

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ABSTRACT

The recent suspension of barter trade in Sabah, Malaysia, has caused losses in business revenues amounting to millions of ringgit and the loss of employment of hundreds of workers in the industry. We conducted a survey to quantify the impact of the barter trade suspension in major barter trade locations which included Tawau, Sandakan, and Lahad Datu, major cities in Sabah that are considered the hubs of barter trading in the state. Our survey findings show that the losses of direct income to traders due to the suspension range between RM1,680,000 - RM3,750,000 for eight traders in the survey sample conducted in May 2016. Other effects include the laying-off of barter-trade workers, and unemployment of employers, losses in the benefit of import-export activities through anticipated rising prices, losses in the diversity of consumption of imported products, and displacement of workers through relocation to other industry sectors or geographical regions to pursue new employment opportunities.

Keywords: barter trade

1.0 INTRODUCTION

Barter trading has been an important trading activity in the Borneo-Indonesia-Malaysia-Phillipines-East ASEAN Growth Area or BIMP-EAGA region since time immemorial. Up to the year 1993, cross-border trade in Borneo was officially known as barter trade, in which traders cross the border, bringing with them raw materials from Indonesia to their neighbouring country such as Malaysia, and smuggling manufactured articles back home (Lee, 1976). In 1993, the regulatory framework of Tawau Barter Trade Association (BATS) has been put in place to oversee the operation and activities on cross barter trade between the Indonesian province of East Kalimantan and the Malaysian State of Sabah. Additionally, in the late 1990s, cross border trade between West Kalimantan and Sarawak was subsumed by the Free Trade Zone (FTZ) in Sarawak (Tirtosudarmo, 2002). BATS is an organization that handles the trade of raw materials from Indonesia for Malaysian consumer goods; however, in recent years the association has strong tendency and focus on the trade of timber.

Barter trading system removes the traditional limitations which could be a hassle in the modern world such as the need of equal medium of exchange, the need for each other's service or manufactured goods between two parties, as well as the time taken in order for transaction coordination (Mk Global Trade, 2017). Although there are many advantages provided by the barter trading system to the growth of an economy, a proposal to ban barter trade between Sabah's east coast communities and southern Philippine residents was brought to the attention of the Sabah government (Sabah Ports Authority, 2017). This proposal was brought up by the police in an attempt to restrict criminal activities at the east

coast of the state, following a spate of abductions that took place in the area (Sairo, 2017), and human trafficking operations as well as illegal barter trade (Sabah Ports Authority, 2017).

On April 6, 2016, following the abduction of local residents by armed men in Ligitan waters, the Sabah Chief Minister Datuk Seri Musa Aman declared an immediate suspension on all barter trade activities in all the barter trade ports in Sabah, the trans-shipment activities including in petroleum and gas trading in the Eastern Sabah Security Zone (Esszone) area, as well as putting the Kudat-Palawan ferry service on hold as a new maritime security measure (Geraldine, 2016).

The temporary ban on barter trade by the state government devastated the livelihoods of many and cause a cataclysmic economic impact on the businesses, said Mr. Lo Su Fui, the president of Tawau Chinese Chamber of Commerce (Chan, 2016). Approximately 50 to 70 tonnes of fish and other seafood was brought in from Indonesia into Tawau through barter trade on a regular basis, not including the numerous merchandises such as cosmetics, according to Sri Tanjong assemblyman Mr. Chan FoongHin (Lai, Morpi, &Lajiun, 2016). If the decision of banning the barter trade in the east coast of the state is made hastily, it will cause a permanent damage to the industry that will cause a chain reaction leading to a disastrous impact to the economy as the barter trade is the lifeline of the industry (Chan, 2016).

Although the decision was made by the state government out of concern for the state's security, it overlooked the driving factor of the continued abduction of residents and travellers by the alleged Filipino militants (Chan, 2016). The latest abduction incident occurred in the high sea, far away from the barter-trade-prospered areas, which reflects on the authorities' limitations in maintaining the security of the areas rather than the threats brought upon by barter trade (Chan, 2016). The current measures of security include the need for any foreign mercantile vessels to first acquire permission from the local authorities before entering the water borders and actions were taken to prevent subsidized merchandises to be trafficked out of Sabah (Lai, Morpi, &Lajiun, 2016). Additionally, they also proposed that the barter trade should be reestablished with all its security processes refined.

Sandakan-Zamboanga business council chairman, Mr. Chai Soon, advised the state government to reassess the drastic actions as the ban will affect people involved in the trade related businesses and services such as transportation companies, supermarkets, restaurants, drivers and porters; it was estimated that in Sandakan, barter trade is worth an average of RM9 million monthly, while in Tawau, it is estimated to mobilize RM12 million per month (Chan, 2016).

Nevertheless, the Industrial Development Minister, Datuk Raymond Tan Shu Kiah, argued that safety and security for all businesses, the residents, and the state should be prioritized rather than focusing on the damaging impacts on certain businesses brought by the ban on barter trade (Lai, Morpi, &Lajiun, 2016). The state government wanted its neighbouring counterparts, specifically the Philippines and Indonesian governments, to function as a group in addressing the security issue as only when safety is secured would the businesses in Tawau, Sandakan and other districts in the east coast blossom and prosper.

Additionally, the Youth and Sports Minister Datuk Tawfiq Abu Bakar Titingan also defended that the ban was necessary, and stressed that since the assemble of Eastern

Sabah Security Command (ESSCom), there has been steady improvement in security where ESSCom had successfully stopped several attempts by foreign armed groups (Lai, Morpi, &Lajiun, 2016). Similarly, Sukau assemblyman Datuk Saddi Addul Rahaman also supported the ban and reasoned that the ban on the barter trade with Southern Philippines would coincide with the effort to address the ongoing security issues in the east coast, bringing positive impact and at the same time, to address the unfair and also illegal business trade between Sabah and foreign barter traders as the trade activity was more lucrative for foreign vessels rather than Sabah itself (Lai, Morpi, &Lajiun, 2016).

Inspector-General of Police Tan Sri Khalid Abu Bakar meanwhile claimed for the police authority to propose to the state government to invest on sophisticated equipment crucial for the purpose of monitoring the activities on the waters off Sabah's east coast over a distance of 1,700km to maintain security (Sabah Ports Authority, 2017). Rather than banning the barter trade on the east coast of Sabah, the authorities should instead develop more operational and realistic border policy to minimize the impact on the economy and set up a special squad to tackle the criminal activities in the areas (Chan, 2016).

2.0 SURVEY BACKGROUND

The current survey was conducted in May 2016 in three locations in the State of Sabah, namely, Sandakan, Tawau and Lahad Datu. Respondents were interviewed representing their companies which were engaged in barter trading.

The survey respondents comprise of 11 companies that engaged in the following business activities: transshipment or barter trade (8 companies), commodities (1 company) and packaging or manufacturing (2 companies). Four of the companies employ 1-5 workers, two companies employ 6-10 workers, 2 companies employ 11-15 workers, one company employs 16-20 workers, and two companies employ more than 30 workers.

Table 1 shows that five or nearly half of the surveyed companies have been operating for 10-15 years, while two companies have been operating for 16-20 years, and two companies for 31-35 years.

Table 1: Years surveyed company has been operating

Number of years	Frequency	Percent
Less than 10 years	2	18.2
10 – 15 years	5	45.5
16 – 20 years	2	18.2
21 – 25 years	-	-
26 – 30 years	-	-
31 – 35 years	2	18.2
More than 36 years	-	-
TOTAL	11	100.0

The place of origin of respondents interviewed are Sandakan (5 respondents), Tawau (2 respondents), Lahad Datu (1 respondent) and others (3 respondents). The majority, that is, nine respondents have 1-5 dependents, one respondent has 6-10 dependents, and 1 respondent indicated having more than 35 dependents.

Table 2 shows the income activity of respondents after the suspension of barter trading came into effect. These include engaging in grocery shop operation to being unemployed as indicated by one respondent.

Table 2: Income activity after barter trade suspension

No. of Income	Frequency	Percent
Grocery shop	1	9.1
Emphasize on other department of the company	1	9.1
Only depend on walk-in customer	1	9.1
Quiet temporary	1	9.1
Sale of cooking oil to local market	1	9.1
Zero income	1	9.1
Unknown yet	2	18.2
Nil	3	27.3
TOTAL	11	100.0

3.0 FINDINGS ON FINANCIAL IMPLICATIONS

Table 3 shows that six or half of the companies surveyed had income of at least RM91,000 and three companies had more than RM1 million in income. However, the suspension of the barter trading had reduced income by significant amounts, as indicated in Table 4. Ten out of the 11 respondents indicated that they have experienced losses due to the barter trading suspension. This result is shown by Table 5.

Table 3: Income before barter trade suspension

Income	Frequency	Percent
Less than RM20,000	2	18.2
RM21,000 – RM30,000	-	-
RM31,000 – RM40,000	1	9.1
RM41,000 – RM50,000	-	-
RM51,000 – RM60,000	-	-
RM61,000 – RM70,000	-	-
RM71,000 – RM80,000	-	-
RM81,000 – RM90,000	-	-
RM91,000 – RM 1 million	3	27.3
More than RM 1 million	3	27.3
Unknown	2	18.2
TOTAL	11	100.0

Table 4: Income after barter trade suspension

No. of Income	Frequency	Percent
Less than RM5,000	1	9.1
RM6,000 – RM10,000	-	-
RM11,000 – RM15,000	-	-
RM16,000 – RM20,000	-	-
RM21,000 – RM25,000	1	9.1
RM26,000 – RM30,000	-	-
RM31,000 – RM35,000	-	-
RM36,000 – RM40,000	-	-
More than RM40,000	1	9.1
Unknown	8	72.7
TOTAL	11	100.0

Table 5: Experience loss due to the suspension of barter trade

Did you experience any loss due to the suspension of barter trade?	Frequency	Percent
Yes	10	90.9
No	1	9.1
TOTAL	11	100.0

Types of losses reported include cargo damage, committed perishables, loss of fixed income, and loss of employment. Table 6 details the types of losses incurred by survey respondents.

Table 6: Physical loss or damage experienced

Physical loss or damage experienced	Frequency	Percent
• Cargo damage (rice/ sugar)	1	9.1
• Company's committed perishable cargos.	1	9.1
• Deaths of stock, loss of fixed income, unable to generate income to pay the debt/ outstanding to creditors, company had to bear high interest rates and workers salary.	4	36.4
• Rental shops, warehouses (in Sabah/ overseas), housing, electricity, water, telephone, CCM, cars, salaries, school children, and others	2	18.2
• Goods stolen from warehouse.	1	9.1
• Workers lose jobs and income.	1	9.1
• Nil	1	9.1
TOTAL	11	100.0

In terms of monetary value, losses incurred in shown in Table 7. Losses range from RM10,000 to RM1 million for each trader. Three of the companies indicated having losses between RM500,000 - RM1 million. Based on Table 7, taking estimate of the total losses, the minimum value of losses for eight of the respondents is RM1,680,000, while the maximum

estimate would be RM3,750,000. These substantial amounts are anticipated to be larger for the population of industry players as a whole.

Table 7: Estimates of Loss

Loss experienced	Frequency	Percent
Less than RM10,000	-	
RM10,000 – RM50,000	3	27.3
RM50,000 – RM100,000	1	9.1
RM100,000 – RM500,000	1	9.1
RM500,000 – RM 1 million	3	27.3
RM 1 million and above	-	-
Unknown	3	27.3
TOTAL	11	100.0

Notably, all respondents indicate that there will be potential losses if barter trade is to be suspended continuously.

4.0 IMPLICATIONS ON SECURITY AND SOCIOECONOMIC ISSUES

Table 8 shows that survey respondents unanimously agree that the barter trade suspension poses adverse effects. Moreover, eight of the respondents agree that the barter trade suspension be lifted, although three respondents indicate that they do not agree. This result is shown in Table 9. It is also interesting to note that ten out of eleven respondents do not think that barter-trade suspension is necessary for security issues, as indicated in Table 10.

Table 8: Opinion about the present suspension

Opinion	Frequency	Percent
Good	-	-
No effect	-	-
Bad	11	100.0
TOTAL	11	100.0

Table 9: Opinion on lifting barter trade suspension

In your opinion, should the barter trade suspension be lifted?	Frequency	Percent
Yes	8	72.7
No	3	27.3
TOTAL	11	100.0

As the traders who engaged in barter trade on a daily basis, the finding that nearly all agree that the barter trade suspension is not necessary for security issues is significant as the traders would have information on the security of trading across borders and the seas where they operate. The occurrences of security events may not be directly related to the traders' daily activities and operations, and thus their belief that the suspension is not necessary. Another reason could be that the security offenders may not have any direct links to barter trading as they operate on different levels of motivation.

Table 10: Opinion on whether barter trade suspension is necessary for security issues

In your opinion, is the barter trade suspension necessary for security issues?	Frequency	Percent
Yes	1	9.1
No	10	90.9
TOTAL	11	100.0

Social impacts of the barter trade suspension on the local community are perceived to include the loss of employment which will affect the local economy; increase in unemployment and crimes rate; decrease in job opportunities; fall in supply of imported goods from neighbouring country Indonesia; loss of income to barter trade players; and increase in smuggling activities of goods. Table 11 shows the responses from interviewees and respondents of the survey questionnaire.

Table 11: Social impact/s on the local community due to the barter trade suspension

Social impact/s on the local community due to the barter trade suspension	Frequency	Percent
• A lot of people will be out of work. This will depress the Sandakan economy further resulting in more crime and social problems.	1	9.1
• Economy drop. Unemployment rate increase. Crime case increase.	1	9.1
• Job opportunities are decreasing. The economy stagnated.	1	9.1
• Local SMEs traders are poorer in terms of business and goods supply from their Indonesia counter parts. Public security problems will be increased due to bad performances of regional social economy with the absent of their traditional barter trade economic activities.	1	9.1
• Loss of income to companies, businessman, and all involved in the barter trade. Economic impact on country and Sabah state. More money earned from overseas means more money spent locally which will help the livelihood of all businesses locally, create employment and improve income.	1	9.1
• Many small businesses in the lurch. Smuggling is rampant. Activities in the area will continue to be paralyzed barter.	1	9.1
• No, being control by Kastam, police and immigration.	1	9.1
• The economic in the affected areas has dropped dramatically. Many workers lose their jobs as a result of the reduction in cases conducted by the companies involved in this suspension.	1	9.1
• The impact crippled the economic activity. Now, already many shops starting to close business. Many workers out of jobs. Hotel business becomes zero. Taxis, restaurant no income.	1	9.1
• Workers lose their jobs. Many have been sued by buyers from abroad.	1	9.1
• Nil	1	9.1
TOTAL	11	100.0

On the issue of continuing with business operations for traders who were affected by the barter-trade suspension, Table 12 shows that the majority of respondents are not considering moving to another location to continue operations. However, respondents believe that if Malaysia does not engage in barter trade, then barter trade will shift to countries such as Indonesia, Singapore, Brunei, Vietnam and Thailand.

Table 12: Consider moving to another location or port to continue your business operation

Would you consider moving to another location or port to continue your business operation?	Frequency	Percent
Yes	4	36.4
No	7	63.6
TOTAL	11	100.0

Table 13 shows the location or countries that respondents believe barter trade will shift to, if Malaysia no longer engages in barter trading.

Table 13: Opinion on barter trade will shift

If Malaysia does not manage barter trade, where do you think barter trade will shift?	Frequency	Percent
Peninsular Malaysia	-	-
Labuan	-	-
Sarawak	1	9.1
Neighboring countries (Indonesia, Singapore, Brunei, Vietnam, Thailand, etc)	7	63.6
Close business/ bankrupt	1	9.1
Unknown yet	2	18.2
TOTAL	11	100.0

5.0 DISCUSSION

The economic implications of the suspension of barter trade in Sabah are severe not only for the trade industry players, but for the economy as a whole. While this study is limited by the small sample of respondents, the results can be extrapolated for the larger number of traders engaged in barter trading in Sabah and their neighbouring foreign partners across the BIMP-EAGA region. We discuss some of the impacts of the barter trade suspension in this section.

The loss of income from barter trade which runs into the millions does not augur well for the economy as barter trade has contributed to generating revenue to the state government in the forms of income tax, import and export taxes, and port activities such as entry and exit tolls. As the losses of income from these sources are incurred, it would encourage other activities such as the smuggling of goods across borders that may not be subject to tax and other forms of revenue-generating income for the government.

The increased demand for barter goods that are no longer available due to the barter trade suspension would lead to the increase of the price of the goods. Rising demand results from the loss of supply from the barter trade activities not only for domestic

consumers but for their foreign counterparts as well. The increase in goods prices can lead to inflationary pressure on goods that are essential for daily consumption as barter trading has mainly been on food products such as sugar, marine products, cooking oil, instant foods, drinks such as Milo and tea, fruits and other forest products. The loss in consumer benefits due to rising prices implies the loss in international trade between countries that offers advantages in county-specific specialization of diverse and differing economic activities.

The suspension of barter trading means that countries are not able to capitalize on their comparative advantages in trading with foreign partners. As comparative advantages leads to lower prices that can be offered through trade, and exposure to multiple and diverse brands of imported products, the loss of comparative advantages means higher prices and lower ranges of choice of product brands and types. Considering that barter trade offer essential food products for daily consumption purposes, the implications of higher prices and lower diversity of products are harder on low income consumers than high income consumers.

Unemployment that results from the suspension of barter trading not only increases the unemployment rate across borders, but also the fact that the losses of employment are in the more labour intensive sectors of barter trade industry. In particular, unemployment in the barter industry implies low wage earners would be out of work as are their employers who suffer not only money incomes but also a source of living that has been acquired over years, if not decades.

The socioeconomic impacts of the suspension of barter trading would include the displacement of businesses and workers that would need to relocate from one region to another in order to pursue new jobs and sources of livelihood. These may require acquiring new labour skills and the adjustment to new environments that would require time and resources that include both financial and physical resources.

6.0 CONCLUSION

The barter trade suspension initiated by the government of Malaysia as a direct result of security events that occurred, in particular of recent kidnapping events of locals and foreign citizens in Sabah, has generated economic and social implications on the barter trade industry players. Our study finds that losses of income from barter trading may range between RM1,680,000 - RM3,750,000 for the eight sample traders in our survey conducted in May 2016. Moreover, loss of employment for workers involved in barter trading indicates consequences for the newly unemployed that would need to find new job opportunities and relocate to do so if necessary. Last but not least, as barter trading are mainly in the import and exports of necessary or essential goods, the group of consumers that are hardest hit by the barter trade suspension is the low-income group who may lose benefits due to anticipated higher prices and loss of diversity in brands of products consumed.

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